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Niagara Structural Steel

annual report 1981

NIAGARA STRUCTURAL STEEL COMPANY LIMITED
AND SUBSIDIARY COMPANIES

Head Office
Smith & Petrie Streets, St. Catharines, Ontario

Subsidiaries
Niagara Structural Steel (St. Catharines) Limited
Norsteel Limited
Northern Steel Co. Ltd.
Norforge Inc.
Kenarin Steel Sales Corp.
415572 Ontario Inc.

Directors
B.A. Brown
M.E. Fedryna
Irwin Goldhart
M.J. Howe
R.A. Kennedy
H.W. Olch, Q.C.
H.P. Tomarin
C.C. Weeks

Officers
H.P. Tomarin, Chairman of the Board and Chief Executive Officer
R.A. Kennedy, Vice-Chairman of the Board
D.J. Kilgour, P. Eng., President and Chief Operating Officer
M.E. Fedryna, Vice-President Material Services
S.O. Nicholls, R.I.A., Vice-President Finance
S.L. Tomarin, Executive Assistant to the Vice-Presidents
S.A. Tomarin, Assistant to the President
H.W. Olch, Q.C., Secretary
P.J. Kent, Assistant Secretary

Auditors
Touche Ross & Co., St. Catharines, Ontario

Solicitors
Olch, Torgov, Cohen & Kent, Toronto, Ontario

Registrar and Transfer Agent
The Canada Trust Company, Toronto, Ontario

First Preference Shares, Series A
Listed — Toronto Stock Exchange

REPORT TO SHAREHOLDERS

In their Report December 1, 1980 your Directors predicted strong activity in all divisions for fiscal 1981 and that Niagara would surpass fiscal 1980 in both net sales and net profits. The prediction as to net sales was clearly realized by an increase to $67,134,160 versus $61,536,778 for the earlier year. Net profits did not advance in proportion — $808,446 for 1981 or $1.61 per common share compared to $836,744 for 1980 or $1.67 per common share. The chief reasons were unprecedented high interest rates and a major slowdown in the iron ore industry. Interest payments rose to approximately $2,100,000 for fiscal 1981 compared to approximately $1,700,000 for fiscal 1980.

The uncertain business outlook in Eastern Canada reduced the number of expansion projects available and caused others to be deferred with the result that prices and profits were generally lower in the industry. The Fabrication Division will continue to exercise great selectivity in contract bidding.

Our profitable role as distributor in the U.S.A. of Atlas Steels Products will end December 31, 1981, as Atlas Steels has resolved to handle U.S.A. marketing internally from that time forward. We continue on the best of terms with this fine and prestigious firm. We will continue to sell Niagara's other steel products into the U.S.A. and foreign markets.

We are forecasting a return to profitability of our Norforge grinding ball mill. Our steel service centres at St. Catharines and at Sept-Iles should continue to deliver satisfactory earnings on a steadily increasing sales volume.

Quarterly dividends on preference shares are current to September 30, 1981. Common dividends were resumed December 31, 1980. The Directors have already authorized the regular quarterly preference dividend December 31, 1981 and a further 5¢ common dividend on that same date.

The Directors wish to recognize the dedicated contribution of all members of Management and Staff to the 1981 results, achieved during a time of general financial insecurity in our industry.

ON BEHALF OF THE BOARD OF DIRECTORS

H. P. Tomari

Chairman of the Board
and Chief Executive Officer

President and Chief
Operating Officer

St. Catharines, Ontario
December 31, 1981

CONSOLIDATED BALANCE SHEET
NIAGARA STRUCTURAL STEEL COMPANY LIMITED AND SUBSIDIARY COMPANIES

ASSETS	August 31 1981	1980
CURRENT ASSETS		
Cash	$ -0-	$ 278,347
Accounts receivable less allowance for doubtful accounts	11,895,537	9,335,868
Incentive grant receivable	-0-	93,450
Unbilled contract revenue	2,624,923	1,009,138
Inventories of steel, work in process and sundry materials at the lower of cost and net realizable value	11,207,010	8,844,825
Prepaid expenses	246,163	97,715
TOTAL CURRENT ASSETS	25,973,633	19,659,343
LONG-TERM INVESTMENTS	27,164	411
PROPERTY, PLANT AND EQUIPMENT (Note C)	8,489,285	8,227,352
Less — allowances for depreciation	3,149,965	2,742,960
	5,339,320	5,484,392
OTHER ASSETS		
Incorporation and issue expenses less amortization	-0-	4,000
Plant start-up costs	105,478	148,650
	105,478	152,650
	$31,445,595	$25,296,796

See notes to consolidated financial statements.

AUDITORS' REPORT

To the Shareholders
Niagara Structural Steel Company Limited

We have examined the consolidated balance sheet of Niagara Structural Steel Company Limited as at August 31, 1981 and the consolidated statements of operations, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at August 31, 1981 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The consolidated financial statements of the company as at August 31, 1980 and for the year then ended were reported upon by another firm of chartered accountants.

Touche Ross & Co.
Chartered Accountants

St. Catharines, Ontario
October 23, 1981

CONSOLIDATED BALANCE SHEET
NIAGARA STRUCTURAL STEEL COMPANY LIMITED AND SUBSIDIARY COMPANIES

LIABILITIES AND SHAREHOLDERS' EQUITY	August 31 1981	1980
CURRENT LIABILITIES		
Bank indebtedness (Note D)	**$ 8,246,539**	$ 7,286,203
Accounts payable and accrued liabilities	**10,793,642**	7,259,858
Income taxes payable	**850,616**	193,121
Deferred contract revenue	**776,528**	87,506
Current portion of long-term debt	**420,872**	407,972
TOTAL CURRENT LIABILITIES	**21,088,197**	15,234,660
TERM BANK LOANS (Note D)	**3,830,614**	4,238,531
OBLIGATIONS UNDER CAPITAL LEASE (Note E)	**98,096**	-0-
DEFERRED INCOME TAXES (Note F)	**658,244**	728,972
	25,675,151	20,202,163
SHAREHOLDERS' EQUITY		
Capital stock (Note G):		
First preference shares with a par value of $30 per share, issuable in series: Authorized 42,859 shares; Issued 12,859 (1980-13,359) Series A 6-1/2% cumulative shares redeemable at $31.50	**385,770**	400,770
Common shares without par value Authorized 1,000,000 shares; Issued 486,775 shares	**1,041,637**	1,041,637
Excess of net asset value of subsidiary over purchase price of shares at date of acquisition	**193,897**	193,897
Contributed surplus	**39,471**	34,661
Purchase fund for Series A first preference shares	**12,000**	12,000
Retained earnings	**4,097,669**	3,411,668
	5,770,444	5,094,633
	$31,445,595	$25,296,796

APPROVED ON BEHALF OF THE BOARD:

H. P. Tomarin, Director
R. A. Kennedy, Director

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year Ended August 31 1981	1980
Balance at beginning of year:	$ 3,411,668	$ 2,612,658
Add: Net income for year	808,446	836,744
Transfer from purchase fund for Series A preference shares	12,000	508
	4,232,114	3,449,910
Deduct: Dividends paid:		
Preference shares	25,090	26,242
Common shares	97,355	-0-
Transfer to purchase fund for Series A preference shares	12,000	12,000
	134,445	38,242
BALANCE AT END OF YEAR	$ 4,097,669	$ 3,411,668

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF OPERATIONS

	Year Ended August 31 1981	1980
Net sales	$67,134,160	$61,536,778
Costs and expenses:		
Cost of sales and operating expenses	63,101,349	58,043,110
Depreciation	412,711	441,784
Interest on long-term debt	845,895	643,695
Interest on short-term borrowings	1,245,579	1,084,303
	65,605,534	60,212,892
INCOME BEFORE INCOME TAXES	1,528,626	1,323,886
Income taxes (Note F)	720,180	487,142
NET INCOME	$ 808,446	$ 836,744
Earnings per common share	$ 1.61	$ 1.67

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended August 31 1981	1980
SOURCE OF FUNDS		
Net income	$ 808,446	$ 836,744
Add expenses (income) not requiring an outlay of working capital:		
Depreciation	412,711	441,784
Amortization of incorporation and issue expenses	4,000	4,000
Deferred income taxes	(70,728)	100,447
Amortization of plant start-up costs	43,172	67,558
Gain on disposals of plant and equipment	(25,693)	-0-
Other	(26,558)	-0-
TOTAL FROM OPERATIONS	1,145,350	1,450,533
Proceeds from disposals of plant and equipment	26,537	43,164
Increase in long-term debt	121,942	636,503
Incentive grant receivable	-0-	93,450
	1,293,829	2,223,650
USE OF FUNDS		
Repayment of long-term debt	431,763	66,672
Long-term investments	195	411
Purchase of plant and equipment and improvement to buildings	268,483	146,311
Dividends paid:		
— preference shares	25,090	26,242
— common shares	97,355	-0-
Cancellation of Series A preference shares	10,190	-0-
	833,076	239,636
INCREASE IN WORKING CAPITAL	$ 460,753	$ 1,984,014
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Increase (decrease) in current assets:		
Cash	$ (278,347)	$ 27,262
Accounts receivable	2,559,669	(2,196,579)
Income taxes receivable	-0-	(21,665)
Incentive grant receivable	(93,450)	93,450
Unbilled contract revenue	1,615,785	(843,384)
Inventories of steel, work in process and sundry materials	2,362,185	(624,745)
Current portion of agreement of sale	-0-	(3,831)
Prepaid expenses	148,448	41,429
INCREASE (DECREASE) IN CURRENT ASSETS	6,314,290	(3,528,063)
Increase (decrease) in current liabilities:		
Bank indebtedness	960,336	(741,607)
Accounts payable and accrued liabilities	3,533,784	(3,805,704)
Income taxes payable	657,495	(874,734)
Deferred contract revenue	689,022	(156,704)
Current portion of long-term debt	12,900	66,672
INCREASE (DECREASE) IN CURRENT LIABILITIES	5,853,537	(5,512,077)
INCREASE IN WORKING CAPITAL	$ 460,753	$ 1,984,014

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NIAGARA STRUCTURAL STEEL COMPANY LIMITED AND SUBSIDIARY COMPANIES

NOTE A — INCORPORATION

The Company is incorporated under the laws of Ontario and conducts its operations in Canada and the United States.

NOTE B — ACCOUNTING POLICIES

Principles of Consolidation: The accompanying financial statements include the accounts of Niagara Structural Steel Company Limited and its subsidiary companies, all of which are wholly-owned.

Kenarin Steel Sales Corp. and its wholly-owned subsidiary
415572 Ontario Inc. (operating as Kentom Steel)
Niagara Structural Steel (St. Catharines) Limited
Norsteel Limited and its wholly-owned subsidiary Norforge Inc.
Northern Steel Co. Ltd.

All significant intercompany transactions have been eliminated on consolidation.

Basis of Accounting for Contract Profits: Profits from contracts are recorded based on the estimates of the percentage-of-completion method of accounting. Losses are provided for in full when known.

Unbilled contract revenue, included with current assets, represents the excess of contract costs and profits recorded over contract billings on specific contracts. Deferred contract revenue, included with current liabilities, represents any excess of contract billings over contract costs and profits recorded on other contracts.

Inventory Valuation: Inventories are stated at the lower of cost (determined substantially on the first-in, first-out method) and net realizable value. The cost of work in process and finished products includes the cost of raw materials, direct labour and overhead.

Investments: Investments in companies over which the Company exerts significant influence are accounted for by the equity method, by which the original cost of the shares is adjusted for the Company's share of earnings or losses less dividends since significant influence was acquired.

Property, Plant and Equipment: Additions to property, plant and equipment are recorded at cost.

Major capital expenditures are capitalized, while costs of maintenance and repairs are charged to operations as incurred. Gains and losses on disposals of property, plant and equipment are recorded to operations as incurred.

Depreciation is provided on the straight-line method at rates previously determined by an independent firm of consulting engineers. These rates vary between 2.8% and 26.3% per annum.

Foreign Currency Translation: 415572 Ontario Inc. (operating as Kentom Steel) maintains its accounting records and prepares its financial statements in United States currency. The accompanying consolidated financial statements, expressed in Canadian dollars include a translation of the subsidiary's United States currency accounting records and financial statements in accordance with generally accepted accounting principles. Assets, liabilities, revenues and expenses have been translated at the following rates of exchange:

1. Current assets and liabilities, at exchange rates prevailing at year end.
2. Fixed assets and capital stock at historical exchange rates.
3. Revenues, expenses and changes in non-current assets and liabilities at average rates in effect during the year.

Gains or losses on translation of foreign currency are recognized in income for the year in which they arise.

Incorporation and Issue Expenses: These costs were amortized at the rate of $4,000.00 per year.

Plant Start-Up Costs: These costs, incurred in connection with the Norforge production facility in Sept-Iles, Quebec, are being amortized over an estimated five-year period based upon production. Plant start-up costs charged to operations during the year amounted to $43,172 (1980 - $67,558).

Incentive Grants: Assistance relating to the acquisition of plant and equipment is accrued on the basis of expenditures made and is deducted from the cost of the related assets. Accordingly, depreciation charged to earnings is based on the net cost of the assets.

NOTE C — PROPERTY, PLANT AND EQUIPMENT

	August 31 1981	1980
Land and land improvements	**$ 620,159**	$ 611,274
Buildings	**2,596,719**	2,564,637
Machinery and equipment	**5,272,407**	5,051,441
	8,489,285	8,227,352
Allowances for depreciation	**3,149,965**	2,742,960
	$5,339,320	$5,484,392

NOTE D — BANK INDEBTEDNESS

Loans included with current liabilities are payable on demand and are secured by accounts receivable and inventories, and by a demand debenture of $1,250,000 consisting of a floating charge on all assets but subject in priority to debentures given to secure the term bank loans. Term bank loans of $4,238,586 consist of a term bank loan of $1,430,000, a term bank loan of $1,897,475 and a term bank loan of $911,111.

The principal amount of the term bank loan of $1,430,000 is repayable in ten consecutive semi-annual installments of $70,000 each commencing February 28, 1982, with a final payment of $730,000 due February 28, 1987. Interest on the outstanding principal balance is payable monthly and is calculated at a rate not to exceed one percent over the prime lending rate existing from time to time of the Company's general bankers. This term bank loan is secured by demand debentures of the Company and one of its subsidiaries for $2,500,000 constituting a first fixed and floating charge on all assets owned by the Company and Niagara Structural Steel (St. Catharines) Limited, subject to these companies giving security on accounts receivable and inventories, in priority to these debentures, to secure bank loans payable on demand.

The principal amount of the term bank loan of $1,897,475 is repayable in twelve consecutive semi-annual installments of $100,625 each, commencing November 29,1981, with a final payment of $689,975 due November 29, 1987. Interest on the outstanding principal balance is payable monthly and is calculated at one percent over the prime lending rate existing from time to time of the Company's general bankers.

This term bank loan is secured by a mortgage bond of $2,500,000 constituting a first fixed charge on all real estate owned by Norforge Inc. and a first floating charge on all other assets owned by Norforge Inc., subject to Norforge Inc. giving security on accounts receivable and inventories in priority to these debentures, to secure bank loans payable on demand. This term bank loan is guaranteed without limit, by Niagara Structural Steel (St. Catharines) Limited, subsidiary.

The principal amount of the term loan of $911,111 is repayable in one hundred and three consecutive monthly installments of $5,556 each, commencing September 30, 1981 with a final payment of $338,889 due April 29, 1990. Interest on the outstanding principal balance is payable monthly and is calculated at one percent over the prime lending rate existing from time to time of the Company's general bankers. This term loan is secured by a demand debenture of $1,000,000 constituting a fixed and specific mortgage on all real estate, machinery, equipment, plant, vehicles, goods and chattels owned by Niagara Structural Steel (St. Catharines) Limited and a floating charge on all other assets owned by Niagara Structural Steel (St. Catharines) Limited. This debenture is subject in priority to the debentures given to secure the demand bank loans and the $1,430,000 term bank loan.

At August 31, 1981 the prime lending rate of the Company's general bankers was 22-3/4%.

NOTE E — CAPITAL LEASE

A long term lease transaction relating to the financing required for computer equipment is accounted for as a purchase. The capitalized lease obligations reflect the present value of future rental payments discounted at the interest rate implicit in the lease and the corresponding amount is capitalized as the cost of the computer equipment and depreciated at the rate of 19.6% per annum.

NOTE F — INCOME TAXES

Income taxes have been provided on the income shown in the financial statements. Taxable income is determined on a different basis and gives rise to both current and long-term deferred income taxes:

(a) Current deferred income taxes (included with income taxes payable) result from the use of a method to record income from contracts for tax purposes different from that used for financial statement purposes.

(b) Long-term deferred income taxes result primarily from claiming depreciation for tax purposes on plant and equipment in excess of amounts recorded in the accounts.

NOTE G — CAPITAL STOCK

Purchase Fund for Series A First Preference Shares, and Contributed Surplus: In accordance with the provisions attached to Series A First Preference Shares, a purchase fund to the maximum amount of $50,000 has been established for the purpose of acquiring Series A Preference Shares for cancellation. An amount of $12,000 has been transferred to the purchase fund at August 31, 1981. During the year 500 preference shares were purchased at a cost of $10,190 for cancellation.

To date 5,670 preference shares with a par value of $170,100 have been purchased, at a cost of $130,629, and cancelled. The difference of $39,471 has been credited to contributed surplus.

NOTE H — GOVERNMENT GRANTS

In 1978, subsidiary Norforge Inc. completed the construction of a plant and the purchase of land and equipment for the Norforge production facility in Sept-Iles, Quebec. A development incentive grant under the Regional Development Incentive Act of the Dominion of Canada was authorized in the amount of $467,250. $373,800 of the grant was received during 1979 and the remaining $93,450 was received by August 31, 1981.

NOTE I — COMMITMENTS

The Companies have annual commitments amounting to approximately $310,000 (1980 - $347,000) for rentals of property, plant and equipment under leases of varying terms up to five years.

The Companies have entered into several forward exchange contracts whereby they are committed to sell to their general bankers approximately U.S. $4,450,000 between September 1, 1981 and August 31, 1982 at premium exchange rates varying between 18.03% and 20.90%.

NOTE J — REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The remuneration of directors and senior officers (as defined by The Business Corporations Act of Ontario) amounted to $336,616; (1980 - $326,643.)

NOTE K — DESIGNATED EMPLOYEE PENSION PLAN

During the year the designated employee pension plan was terminated.

NOTE L — SUBSEQUENT EVENTS

The distributorship for the U.S.A. of Atlas Steels Products will be terminated on December 31, 1981. Sales under this distributorship amounted to approximately $19,930,000 for the fiscal period ending August 31, 1981.

NOTE M — RELATED PARTY TRANSACTIONS

The Company paid approximately $168,000 (1980 - $87,000) to an affiliated company for the rental of various equipment. During the year, the company also purchased approximately $2,325,000 (1980 - $880,000) of steel from another affiliated company.

NOTE N — BUSINESS SEGMENT INFORMATION

The Company operates in two principal industry segments, namely, Steel Contracting and Steel Service Centres. Steel Contracting involves the fabrication and erection of structural steel and the fabrication of steel grinding balls. Steel Service Centres involves the supply and distribution of a variety of steel products. Operations by industry segment for the year ended August 31, 1981 are as follows:

	Steel Contracting	Steel Service Centres	Adjustments and Eliminations	Consolidated
Net sales to unaffiliated customers	$24,581,984	$42,552,176	$-0-	$67,134,160
Operating profit	$(265,691)	$ 3,210,930	$-0-	$ 2,945,239
Unallocated general and administrative expenses				1,416,613
INCOME BEFORE INCOME TAXES				$ 1,528,626
Segment depreciation	$ 344,880	$ 41,852	$-0-	$ 386,732
Corporate depreciation				25,979
TOTAL DEPRECIATION				$ 412,711

Because some steel contracting operations and some steel service centre operations jointly share a significant portion of the Company's assets and because management believes that these assets cannot reasonably be allocated among segments, no disclosure has been made of segment identifiable assets. Included in net sales to unaffiliated customers are approximately $24,300,000 of export sales.